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RUEHCV/AMEMBASSY CARACAS 1645
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TREASURY FOR SGOOCH
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SUBJECT: BUSINESS PERSPECTIVE ON TELECOMS CHANGES

11. (SBU) Summary: A U.S. investor in Bolivia's telecommunications sector relayed to us his concerns about the GOB's proposed changes to the sector -- a government take-over of Entel and elimination of the independent regulator -- outlined in its national development plan released on June 16 (septel). The elimination of the independent regulatory system might mean politicization of sector decisions and a reversal of the progress made since 11995. End summary.

Entel Take-Over

12. (SBU) Entel was partially privatized in 1995 and currently controls approximately 60 percent of Bolivia's fixed telecommunications market and 48 percent of the mobile market. The GOB plans to regain majority ownership (51 percent) and name four out of seven board members of Entel, based on its national development plan released June 16. A U.S. investor in Bolivia's telecoms sector told us that a GOB take-over of Entel could have negative and positive repercussions for his business. Negatively, an Entel take-over could mean increased subsidies. It could also lead to Entel offering services below cost, because the GOB directors might be more concerned about political implications than profit, creating an unlevel playing field. Additionally, Entel might be "above the law" as the GOB might be hesitant to apply fines to itself. Finally, because the GOB would be both player and judge, the sector could become less transparent and fair and corruption could increase. On the bright side (for the U.S. competitor but not for the sector as a whole), competing against an inefficient state-owned company might be easier than against a private company. For example, new state-appointed managers might lack market knowledge and sector expertise, bureaucratic decision-making could hinder competitiveness in the fast-paced telecoms world, and customers might not trust a state-owned company to respect the confidentiality of their communications.

Elimination of Regulator

13. (SBU) The U.S. investor told us that the GOB's proposed elimination of the independent telecommunications regulator (superintendency) was worrisome. He explained that although the regulator was at times corrupt, the telecommunications sector had achieved significant advances under the current independent regulatory system that tended to be more transparent than the prior system of ministry oversight and was based on free competition. He added that the elimination of the regulator and transfer of oversight functions to the ministry would mean that sector decisions would be based on politics rather than economic or consumer concerns. He feared that the government as both telecommunications company and regulator might seek to destroy current norms which fostered competition in the sector or stigmatize foreign companies as abusive transnationals.
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